Sheryl (Sherry) L. Herauf
Director
Federal Regulatory Relations

1275 Pennsylvania Avenue, N.W., Suite 400
Washington, D.C. 20004
(202) 383-6424

PACIFIC TELESIS
Group - Washington

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October 5, 1992

Donna R. Searcy
Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Dear Ms. Searcy:

Re: *CC Docket No. 92-134 - Price Cap Performance Review for AT&T*

On behalf of Pacific Bell and Nevada Bell, please find enclosed an original and six copies of its "*Reply Comments*" in the above proceeding. Also enclosed is a diskette containing the text of the "Reply Comments;" however, Exhibits A and B are not included on the diskette.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,

Sherry Herauf

Enclosures

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of	)	
	)	
Price Cap Performance Review For AT&T	)	CC Docket No. 92-134
	)	
	)	

REPLY COMMENTS OF PACIFIC BELL AND NEVADA BELL

JAMES P. TUTHILL
JEFFREY B. THOMAS

140 New Montgomery St., Rm. 1522-A
San Francisco, CA 94105
(415) 542-7661

JAMES L. WURTZ

1275 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
(202) 383-6472

Attorneys for Pacific Bell

Date: October 5, 1992

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SUMMARY

Pacific Bell and Nevada Bell support certain modifications to AT&T price cap regulation in order to foster the Commission's goals to eliminate distortions of the competitive process and to encourage carrier efficiency and lower prices for consumers. The Commission should end the inequitable application of exogenous cost treatment of access charge changes by requiring exogenous cost treatment for both LEC and CAP access charge changes. LECs already provide the Commission with the access cost data needed to administer this requirement, and CAPs should too; all competitors should be required to supply the same data to the Commission.

The Commission should remove service band price floors. Rate decreases that pass through efficiency gains or that respond to changes in the marketplace are clearly beneficial to consumers and should not be deterred by arbitrary, predetermined price floors based on percentage limitations. Besides harming consumers, price floors are not needed to protect against predatory pricing. In addition, the Commission should redefine "new services" to allow new pricing options to be immediately reflected in the price cap indices, so that AT&T will receive price cap credit and be encouraged to develop lower priced options for consumers.

Contrary to MCI's statement that "competition...is primarily responsible for good economic performance in the interexchange market," NERA has found that IXC competition has not lowered prices or increased demand for long-distance

services. Competition has not prevented AT&T from retaining almost 20 percent of the annual drop in LEC access charges. It is price cap regulation, not IXC competition, which has produced consumer benefits. Exogenous cost treatment of LEC access charge changes under price cap regulation has helped ensure that consumers receive substantial benefits by requiring AT&T to lower its price cap indices by the full access charge decline. This has ensured a reduction of AT&T's prices by a substantial part of the access charge drop. It also has kept AT&T from obtaining price cap credit for those price reductions, which could, otherwise, be used to allow offsetting price increases.

MCI's recommendation that the Commission establish a "bright-line" between the regulation of AT&T's interexchange business and the regulation of the LECs' access business, moving from price cap regulation to more streamlined regulation for AT&T and from price cap regulation to more rigid regulation for LECs, is irrelevant to this proceeding and makes absolutely no sense. The LECs need more, not less, flexible price cap regulation to meet competition. Without that flexibility, the efficiency incentives of price cap regulation will be lost; the LECs will be forced to watch customers transfer their business to less efficient competitors. That approach would frustrate the Commission's goals to eliminate distortions of the competitive process and to encourage carrier efficiency and lower prices for consumers.

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REPLY COMMENTS OF PACIFIC BELL AND NEVADA BELL

I. INTRODUCTION

Pacific Bell and Nevada Bell ("the Pacific Companies") hereby respond to comments on the Notice of Inquiry in the above-captioned proceeding. In these Reply Comments, we support certain modifications to the price cap regulation of AT&T in order to foster the Commission's goals to eliminate distortions of the competitive process and to encourage carrier efficiency and lower prices for consumers. AT&T is premature, however, when it states that "the interexchange marketplace is so intensely competitive that continued price cap regulation of AT&T is wholly unnecessary to ensure competitive outcomes for prices...."[1] We also show that MCI's comments are a mere collection of conclusory opinions, lacking the hard data and relevant analysis sought by the Commission. MCI is wrong when it asserts that competition, not price cap regulation, has been responsible for all the

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[1] AT&T, p. 3. See our discussion of IXC competition in Parts II and IV below.

benefits achieved in the IXC market. MCI's unsupported argument that price cap regulation of LECs has been a failure is both irrelevant to this proceeding and totally wrong.

II. THE COMMISSION SHOULD REMOVE DISTORTIONS OF THE COMPETITIVE PROCESS

A. The Commission Should Require Exogenous Cost Treatment For Both LEC and CAP Access Charge Changes

US West Communications, Inc. ("US West") and Southwestern Bell Telephone Company ("SWBT") describe a serious bias caused by the AT&T price cap formula which treats LEC access charge changes as exogenous adjustments, but fails to give exogenous treatment to CAP access charge changes.[2] As a result, as access charges decline, AT&T must lower its price cap index, and thus reduce its upward pricing flexibility when it purchases LEC access, but not when it purchases CAP access.

When it created AT&T's price cap formula, the Commission expected price competition from other IXCs to prevent the effects of this bias by forcing AT&T to pass all access savings, from whatever source, on to consumers.[3] As the National Economics Research Associates, Inc. ("NERA") has pointed out, "In a purely competitive or contestable market, all access charge reductions

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2 US West, pp. 2-6; SWBT, pp. 1-3.

3 Policy and Rules Concerning Rates for Dominant Carriers, CC Dkt. No. 87-313, Memorandum Opinion and Order on Reconsideration, 6 FCC Rcd 665, para. 71 (1991) ("AT&T Price Caps Reconsideration Order").

would be passed on."[4] NERA has established, however, that the IXC market is by no means purely competitive or contestable and that IXC competition has not, in fact, accounted for any of AT&T's price reductions.[5] Exogenous cost treatment of LEC access charge reductions has resulted in AT&T price reductions equal to 80% of the drop in LEC access charges. NERA has shown, however, that a lack of IXC competition has allowed AT&T to retain $1.9 billion of the total $10.1 billion in LEC access charge reductions.[6] Thus, events have frustrated the Commission's expectation that competition would force AT&T to pass on all access savings. Without exogenous cost treatment of CAP access charge reductions, there is no reason to believe that AT&T will pass on any CAP access charge reductions to consumers. AT&T will have complete discretion to decide how much to retain or pass on, so long as it purchases access from CAPs rather than LECs. This bias gives an unearned and unfair competitive

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4 AT&T, Attachment, p. 17 at n. 36.

5 William E. Taylor, "Effects of Competitive Entry in the U.S. Interstate Toll Markets," pp. 1 and 4 (NERA, August, 1991) ("1991 NERA Analysis"). The Pacific Companies filed this analysis with their comments in the Expanded Interconnection with Local Telephone Facilities proceeding. Comments of Pacific Bell and Nevada Bell, CC Docket No. 91-141 (filed August 6, 1991). We have attached this analysis hereto as Exhibit A.

6 William E. Taylor, "Effects of Competitive Entry in the U.S. Interstate Toll Markets: An Update", p. 1 and Exh. 1, p. 2 (NERA, May 28, 1992) ("1992 NERA Analysis Update"). Bell Atlantic filed this update in the 1992 Annual Access Tariff Filings proceeding. Comments of Bell Atlantic on Ameritech's Application for Partial Review, CC Docket No. 92-141 (filed July 8, 1992). We have attached this update hereto as Exhibit B.

advantage to CAPs over LECs in their attempts to sell access to AT&T.

When it created AT&T's price cap formula, the Commission found that its concerns regarding administrative burden and its desire for strict adherence to the definition of "exogenous costs" outweighed the LECs' concerns regarding the increased incentive for AT&T's uneconomic bypass.[7] Since that time, however, competition to provide AT&T with access services has been radically altered. Not only has access competition increased substantially, but also the basic tenets have changed. AT&T has been seeking alternative access arrangements in at least 20 cities[8] and recently affirmed its commitment to obtain access from a variety of suppliers.[9] On September 17, 1992, the Commission adopted an order requiring tier 1 LECs to allow competitors to collocate their transmission equipment for interstate special access services in LEC central offices. This order will expand the abilities of CAPs, IXCs, and others to directly compete with LECs in new markets.

In light of these changed circumstances, the Commission should review AT&T price cap regulation to ensure that it

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7 Policy and Rules Concerning Rates for Dominant Carriers, CC Dkt. 87-313, Report and Order and Second Further Notice of Proposed Rulemaking, 4 FCC Rcd 2873, paras. 320-321 (1988) ("AT&T Price Caps Order"); AT&T Price Caps Reconsideration Order, paras. 68-73.

8 Donaldson, Lufkin & Jenrette, "Competition Is Emerging in the U.S. Telephone Market," p. 14 (June 7, 1991).

9 "Alternative Access Business Examined at NCTA; Teaming With Teleport," Communications Daily, May 6, 1992, pp. 5-6.

continues to meet the Commission's fundamental price cap goal to avoid "distortions of the competitive process."[10] As a result of that review, the Commission should end the inequitable application of exogenous cost treatment of access charge changes by requiring exogenous cost treatment for both LEC and CAP access charge changes. LECs already provide the Commission with the access cost data needed to administer this requirement, and CAPs should too; all competitors should be required to supply the same data to the Commission.

B. The Commission Should Have Equitable Reporting Requirements

Earnings reports

In order to promote equal treatment of competitors, the Commission should reject, at this time, AT&T's request that it be relieved of the requirement to file earnings reports.[11] The Pacific Companies agree that earnings reports should not be used to make adjustments in price cap regulation, including adjustments to the productivity offset. It is the potential to earn more, and the risk of earning less, under price cap regulation which gives carriers the incentive to be more efficient and productive.

AT&T should not be relieved of the reporting requirement, however, until LECs are too. Moreover, the

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10 AT&T Price Caps Order, para. 32.

11 AT&T, pp. 29-30

requirement should be expanded to include other IXCs and CAPs at this time. The Commission has ordered LECs to offer expanded interconnection to all customers, including IXCs and CAPs. This will expand the direct competition between LECs, AT&T, other IXCs, and CAPs for the offering of access services. If AT&T and other competitors are allowed to reveal less information about their operations than LECs reveal about theirs, AT&T and other competitors will obtain a competitive marketplace advantage. Therefore, AT&T, other IXCs, CAPs, and LECs should have the same reporting requirements.

Network reliability and service quality reports

The Pacific Companies support AT&T's recommendation that reporting requirements concerning network reliability and service quality be applied "to all facilities-based interexchange carriers."[12] In fact, the Commission should go beyond that and require that all carriers (IXCs, CAPs, and LECs) report on the same basis. This is important for two reasons: 1) The carriers' networks are linked into one large network, and the reliability and quality of the overall network depend on each part. 2) As with other reporting requirements, unless reporting requirements for reliability and quality are equal for all competitors, some competitors will receive an unearned marketplace advantage.

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[12] Id. at 59.

III. IN ORDER TO ENCOURAGE INCREASED EFFICIENCY AND LOWER PRICES FOR CONSUMERS, THE COMMISSION SHOULD REMOVE SERVICE BAND PRICE FLOORS AND REDEFINE NEW SERVICES

AT&T recommends 1) the removal of service band price floors,[13] and 2) a redefinition of "new services" in order to remove disincentives for new pricing options.[14] The Pacific Companies support these changes which would remove barriers that prevent efficient pricing and result in higher prices for consumers.

Service band price floors

Rate decreases that pass through efficiency gains or that respond to changes in the marketplace are clearly beneficial to consumers and should not be deterred by arbitrary, predetermined price floors based on percentage limitations. In addition to harming consumers, price floors are not needed to protect against predatory pricing and should be eliminated. As the U.S. Supreme Court found, "[P]redatory pricing schemes are rarely tried, and even more rarely successful."[15] Predatory pricing "is rational only if the predator believes that it will be able to recoup its short-term losses with future monopoly

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[13] Id at 32-33.

[14] Id. at pp. 34-35.

[15] Competition in the Interstate Interexchange Marketplace, CC Docket No. 90-132, Notice of Proposed Rulemaking, 5 FCC Rcd 2627, para. 102 (1990) ("Competition Notice"), quoting from Matsushita Electrical Industrial Co. v. Zenith Radio Corp., 475 U.S. 574, 589 (1986).

profits."[16] The predator must be "reasonably sure that it will be able to drive existing competitors from the market [and that]...new competitors will not replace the old ones once it raises its prices to monopoly levels in order to recoup its prior losses."[17] As discussed above in Part II and below in Part IV, the IXC marketplace is not purely competitive. The lack of pure competition, however, has resulted in AT&T pricing toll services higher than it would in a truly competitive market, not lower. Thus, AT&T's pricing behavior does not evidence a desire to drive the other IXCs from the market.

Moreover, the Commission has acknowledged that "[t]he price cap prevents the recoupment of past predatory rates; a price cap prevents prices from being raised in the current or future period to make up for losses incurred by rates set at predatorily low levels."[18] In addition, the Commission has found that the risk of treble damages and "substantial re-regulation" by the Commission will deter such a scheme, in the

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[16] Competition Notice, para. 102; Policy and Rules Concerning Rates for Dominant Carriers, CC Dkt. 87-313, Further Notice of Proposed Rulemaking, 23 FCC Rcd 3195, para. 290 (1988) ("LEC Price Caps Further Notice").

[17] Competition Notice, para. 102.

[18] Policy and Rules Concerning Rates for Dominant Carriers, CC Dkt. 87-313, Supplemental Notice of Proposed Rulemaking, 5 FCC Rcd 2172, para. 243 (1990) ("LEC Price Caps Supplemental Notice").

"unlikely event" that a carrier thinks that, undetected, it can succeed in a predatory pricing strategy.[19]

Thus, service band price floors are not needed. The Commission should encourage market-driven pricing by carriers subject to price cap regulation rather than maintain outdated and unnecessary barriers.

Definition of "new services"

The Commission should remove disincentives for new pricing options by redefining "new services." AT&T correctly states: "A service which in fact is a further option for providing discounts should be treated accordingly: as a price change that immediately is reflected in the price cap indices. 'New' services should be limited to those services which truly offer new functionalities or capabilities to consumers (or offer new combinations of capabilities)."[20] By both removing price floors and allowing new pricing options to be immediately reflected in the price cap indices so that AT&T receives price cap credit, AT&T will be allowed and encouraged to price based on its actual costs and to pass savings on to consumers.

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19 Competition Notice, para. 102.

20 AT&T, p. 35. The Pacific Companies agree with AT&T that new services should be allowed to be introduced on 14 days notice, rather than 45 days notice, in order to encourage the introduction of new services. See id. at 36-37.

IV. THE COMMISSION SHOULD REJECT MCI's ARGUMENTS OUT-OF-HAND, AS A COLLECTION OF UNSUPPORTED, IRRELEVANT, AND WRONG OPINIONS

MCI briefly touches upon numerous and varied longstanding issues that have been, or are being, addressed in other proceedings. MCI's discussion of those issues adds nothing to this proceeding; MCI provides none of the hard data and relevant analysis requested by the Commission for its review of AT&T's performance under price cap regulation.[21] Examples of these matters that are touched upon to no avail by MCI include: interstate marketing expenses and other separations matters related to the LECs' 1990 Annual Access Tariff Filings;[22] and the LECs' 1992 Annual Access Tariff Filings.[23]

In its unavailing discussion, MCI makes two particularly egregious errors: 1) MCI's statement that "competition, not price caps, an [sic] is primarily responsible for good economic performance in the interexchange market;" and 2) MCI's statement that "price caps have not improved performance in the access market" in which LECs do not face "meaningful competition."[24] These statements are discussed in the two sections that follow.

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21 Notice of Inquiry, para. 32.

22 MCI, p. 5.

23 Id. at 7.

24 Id. at 6-7.

A. AT&T Price Cap Regulation, Not IXC Competition, Has Ensured Lower Prices For Consumers

Contrary to MCI's unsubstantiated assertion that "competition...is primarily responsible for good economic performance in the interexchange market,"[25] research conducted by NERA shows that IXC competition has not lowered prices or increased demand for long-distance services.[26] In its 1992 update, NERA found that the results of the original analysis were unchanged.[27] In its update, NERA specifically found that from 1984 through 1992 annual access charges paid by AT&T to LECs fell by $10.1 billion, while AT&T's annual prices fell by only $8.2 billion.[28] Thus, competition has not prevented AT&T from retaining almost 20 percent of the annual drop in LEC access charges.

Exogenous cost treatment of LEC access charge changes under price cap regulation, however, has helped ensure that consumers receive substantial benefits by requiring AT&T to lower its price cap indices by the full access charge decline. This has ensured a reduction of AT&T's prices by a substantial part of the access charge drop. It also has kept AT&T from obtaining price cap credit for those price reductions, which could,

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25 Id. at 6.

26 1991 NERA Analysis, p. 1 (emphasis added).

27 1992 NERA Analysis Update, p. 6.

28 Id. at 1.

otherwise, be used to allow offsetting price increases. Therefore, MCI is wrong. It is price cap regulation, not IXC competition, which has produced consumer benefits.

B. MCI's Arguments Concerning LEC Price Cap Regulation Are Premature and Wrong

MCI's unsupported opinions concerning LEC price cap regulation are irrelevant to this proceeding. MCI will have a full opportunity to provide comments on regulation of the LECs when the Commission reviews LEC price cap performance.

Moreover, MCI's arguments are wrong. MCI is wrong when it states, "The current LEC price cap plan in no way reduces incentives for inaccurate cost allocation by the LECs."[29] The Commission has explained that LEC "[i]ncentive regulation by in large measure remov[es] the incentive to misallocate costs between services" because prices are "no longer set by reference to a set of fully distributed costs, but...by reference to a formula that tracks aggregate industry costs."[30]

Similarly, MCI is wrong when it states, "Without meaningful competition, no incentives exist for the LECs to price below their caps."[31] Aside from competition, LECs have a substantial incentive to lower prices in order to stimulate demand for their services. As LECs lower their access prices,

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29 MCI, p. 7 at n. 12.

30 LEC Price Caps Order, para. 34.

31 MCI, p. 7.

IXCs flow through some of those price decreases to their end user customers.[32] Those price decreases stimulate demand by end users for IXCs' services, which, in turn, stimulates demand by IXCs for the LECs' access services. This increased demand raises the LECs' revenues and helps them surpass their productivity target. As the Commission has explained, this can raise LEC earnings.[33]

Contrary to MCI's statements,[34] the benefits of price cap regulation do not depend on the existence of competition. Even though the Commission has acknowledged that competition for LEC access services is increasing,[35] the Commission has found repeatedly that the presence of competition is not a prerequisite for incentive regulation.[36] In fact, the purpose of incentive regulation is to replicate competitive conditions.[37] When it adopted price cap regulation for LECs, the Commission described

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32 AT&T must treat LEC access charge changes as exogenous costs, and other IXCs must keep their prices competitive with AT&T's.

33 LEC Price Cap Order, para. 22. The Commission recognizes that "a sharing mechanism might dampen the LECs' risks and rewards, and thus reduce the incentives offered by a 'pure' price cap plan." Policy and Rules Concerning Rates for Dominant Carriers, CC Dkt. No. 87-313, Order on Reconsideration, 6 FCC Rcd 2637, para. 88 (1991) ("LEC Price Cap Reconsideration Order").

34 MCI at 6-7.

35 AT&T Price Caps Order, para. 566.

36 LEC Price Caps Further Notice, paras. 138-148; AT&T Price Caps Order, para. 573.

37 AT&T Price Caps Order, para. 707.

the benefits that would result for consumers, regardless of whether LECs faced access competition.[38]

MCI is encouraging the Commission to create a "bright-line" between the allegedly competitive IXC market and the allegedly uncompetitive LEC access market. MCI attempts to apply this bright-line by arguing that price cap regulation is not needed in the IXC market and does not work in the LEC access market, based on MCI's incorrect perception of the amount of competition in each of those markets.[39] Based on this theory, MCI would replace AT&T's price cap regulation with "residual market rules" and apparently would return the LECs to rate of return regulation.[40] MCI's bright-line recommendation is a throwback to an approach to regulation, based on set boundaries, which the Commission correctly rejected when it replaced rate of return regulation with price cap regulation. The Commission sought a form of regulation "flexible enough to accommodate technological and competitive advances that cannot be predicted with precision by regulators."[41] The Commission sought this flexibility because it expected that "steady technological advancement...will lead to greater competition than at present

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38 Policy and Rules Concerning Rates for Dominant Carriers, CC Dkt. No. 87-313, Second Report and Order, 5 FCC Rcd 6786, para. 33 (1990) ("LEC Price Caps Order").

39 MCI, pp. 6-8.

40 Id.

41 AT&T Price Caps Order, n. 25.

and a continuing shift in the boundaries between the competitive and less competitive segments of the telecommunications marketplace."[42] As an example of these shifting boundaries, the Commission used the IXC and LEC markets,[43] the very markets which MCI has chosen for its bright-line.

Since creation of price cap regulation, events have confirmed the Commission's expectation. The boundary between competitive and less competitive markets has indeed shifted. Although LECs still are prevented by the MFJ from entering the interexchange business, and competition in that market remains weak, the LECs face substantial and growing competition from CAPs and others, and the Commission has adopted an order in CC Docket 91-141 to significantly expand that competition.[44]

Given these developments, MCI's recommendation that the Commission establish a bright-line between the regulation of AT&T's interexchange business and the regulation of the LECs' access business, moving from price cap regulation to more streamlined regulation for AT&T and from price cap regulation to more rigid regulation for LECs, makes absolutely no sense. That

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[42] Id. at para. 34 (emphasis added).

[43] Id. at n. 25.

[44] See Part II above. In the Expanded Interconnection proceeding, Pacific Bell recently described some of the substantial competition that it faces. Pacific Bell's Ex Parte Submission in Reply to the Ex Parte Submission of Metropolitan Fiber Systems, Inc., pp. 24-30 (filed June 17, 1992), Expanded Interconnection with Local Telephone Company Facilities, CC Docket No. 91-141.

approach would frustrate the Commission's goals to eliminate distortions of the competitive process and to encourage carrier efficiency and lower prices for consumers. The LECs need more, not less, flexible price cap regulation to meet competition. Without that flexibility, the efficiency incentives of price cap regulation will be lost; the LECs will be forced to watch customers transfer their business to less efficient competitors. Commissioner Andrew Barrett recently described the need to streamline LEC price cap regulation because of expanding competition:

> ...our regulatory approach needs to be further modified because new forms of competition and new technologies are poised to play a much more significant role in the local exchange industry than I believe was envisioned when our [LEC Price Caps] order was being written. The result will be that more services will become competitive and can be regulated by the market, and many of our rules will become less meaningful.[45]

45 Commissioner Andrew C. Barrett, "Beyond Price Caps: Escaping The Traditional Regulatory Framework," August 27, 1992, pp. 7, 13, before the Florida Economic Club.

V. CONCLUSION

For the above reasons, the Commission should improve price cap regulation of AT&T by 1) requiring exogenous cost treatment for both LEC and CAP access charge changes, 2) establishing equal reporting requirements for all competitors, 3) removing service band price floors, and 4) redefining new services. The Commission should reject MCI's arguments out-of-hand.

Respectfully submitted,

PACIFIC BELL

Jeffrey B. Thomas

JAMES P. TUTHILL
JEFFREY B. THOMAS

140 New Montgomery St., Rm. 1522-A
San Francisco, California 94105
(415) 542-7661

JAMES L. WURTZ

1275 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
(202) 383-6472

Their Attorneys

Date: October 5, 1992

EXHIBIT A

nera
National Economic Research Associates, Inc.
Consulting Economists

One Main Street
Cambridge, Massachusetts 02142
(617) 621-0444

EFFECTS OF COMPETITIVE ENTRY IN THE U.S. INTERSTATE TOLL MARKETS

by

William E. Taylor

August 1991

EFFECTS OF COMPETITIVE ENTRY IN THE U.S. INTERSTATE TOLL MARKETS

The Commission has suggested that historical evidence supports the view that entry and regulated competition have brought benefits to consumers of U.S. interstate long distance services. In particular,

> ...competition in the provision of interstate long-distance service has led to sharply reduced rates, a larger variety of service options, and more rapid deployment of new technologies... [1]

Indeed, since divestiture and equal access transformed interstate long-distance services, prices have fallen and demand has grown at unprecedented rates. While it is tempting to ascribe these changes to the pressures of competition, careful analysis shows that the Commission's policy of rebalancing local and toll rates is directly and entirely responsible for the overall reduction in long distance rates. While competition may drive down prices and expand demand for interstate long-distance services in the future, there is no evidence that entry and competition--as experienced for U.S. long-distance services--have produced these benefits to date.

Long-distance prices fell faster (in real terms) since divestiture than their long-run historical average: from 1984 to 1990, real interstate toll rate reductions averaged about 5.63 percent annually.[2] From 1972-1983, the longest pre-divestiture period over which interstate rate data are compiled by the Bureau of Labor Statistics, interstate toll rates declined at an annual average (real) rate of 2.7 percent. Since the post-divestiture period coincides with the period for which equal access was available and during which AT&T lost substantial market share,[3] it is tempting to attribute these additional price reductions to direct competition among interexchange carriers. But that would be wrong.

From 1984 to 1990, the FCC undertook a fundamental rebalancing of local access and toll rates in the United States, primarily through two related activities. First, the FCC instituted subscriber line charges (end user common line charges) by which interstate non-traffic sensitive costs were recovered directly from end users on a flat rate basis rather than from toll usage charges. Beginning in 1984, subscriber line charge revenues grew from approximately $1.296 billion to $6.069 billion in 1990, and all of that revenue represented lower carrier access charges paid by the interexchange carriers.[4] Second, the FCC instituted a number of separations changes which effectively reduced interstate costs while increasing intrastate costs. The net effect of separations changes (and other

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[1] Expanded Interconnection with Local Telephone Company Facilities, CC Docket No. 91-141, Notice of Proposed Rulemaking and Notice of Inquiry (released May 6, 1991) ("NPRM" of "NOI"), paragraph 11.

[2] Using the BLS producer price index for interstate toll rates, deflated by the BLS GNP-PI.

[3] The FCC calculates that AT&T's market share of switched access minutes of use fell from 84.2 percent in the third quarter of 1984 to 63.1 percent in the first quarter of 1991: see Federal Communications Commission, "Long Distance Market Shares: First Quarter, 1991," June 28, 1990, Table 3.

[4] United States Telephone Association, ex parte presentation to the FCC, CC Docket 87-313, filed August 6, 1990, Table 2.